

## Message Text

PAGE 01 STATE 160744

41  
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FM SECSTATE WASHDC

TO AMEMBASSY BUDAPEST

S E C R E T STATE 160744

E.O. 11652: GDS

TAGS: PFOR,HU,US

SUBJECT: ANNUAL POLICY ASSESSMENT FOR HUNGARY

REF: BUDAPEST 1069

1. AN INTERAGENCY GROUP HAS REVIEWED THE EMBASSY'S ANNUAL POLICY ASSESSMENT, WHICH WE HAVE FOUND BOTH THOUGHTFUL AND HELPFUL. FOLLOWING ARE OUR COMMENTS ABOUT GENERAL POLICY

SECRET

PAGE 02 STATE 160744

OBJECTIVES, THE CURRENT US-HUNGARIAN SCENE, AND THE EMBASSY'S PROPOSED COURSES OF ACTION FOR THE COMING YEAR.

2. POLICY OBJECTIVES

THE 1973 EUOPARA FOR HUNGARY STATES THAT THE PRIMARY REGIONAL INTEREST IS "THE EVOLUTION OF THE INDIVIDUAL STATES INTO MORE INDEPENDENT ENTITIES, MORE RESPONSIVE TO THE INTERESTS OF THEIR PEOPLE AND THE MAINTENANCE OF THE EXISTING IDENTIFICATION OF THE PEOPLES OF THIS AREA WITH THE WEST." WITH HUNGARY, SPECIFIC INTERESTS INCLUDE THE

PURSUIT OF THE NEM WITHOUT INSTABILITY, EXPANSION OF U.S. EXPORTS TO AND COMMERCIAL PRESENCE IN HUNGARY, THE PROTECTION OF US CITIZEN INTERESTS, AND THE MAINTENANCE OF THE PRO-WESTERN ORIENTATION OF THE HUNGARIAN PEOPLE.

3. THE REVIEW GROUP AGREED THAT THESE WERE STILL OUR PRIMARY INTERESTS IN HUNGARY. WE BELIEVE THAT PURSUIT OF THE HUNGARIAN ECONOMIC REFORM IS A DESIRABLE STEP TOWARDS DOMESTIC PLURALISM AND TOWARDS MORE NORMAL TRADING PRACTICES, WHICH IN TURN WILL HELP SOMEWHAT TO REINFORCE THE PRO-WESTERN IDENTIFICATION OF THE HUNGARIAN PEOPLE. WE FORESEE A CONTINUING OPPORTUNITY GRADUALLY TO EXPAND AMERICAN COMMERCIAL RELATIONSHIPS. IN THIS REGARD, THE TREATMENT OF BUSINESS FACILITATION MATTERS GENERALLY SHOULD NOT AWAIT NEGOTIATION OF A TRADE AGREEMENT WITH PROVISION OF MFN TARIFF TREATMENT. WHERE POSSIBLE THE EMBASSY SHOULD GIVE SUPPORT FOR THE CREATION OF AN AMERICAN BUSINESS PRESENCE IN HUNGARY, BY REPRESENTATIONS IN THE AREAS OF OFFICE FACILITIES, STAFF AND VISAS/WORKING PERMITS. THE REVIEW GROUP ALSO CONSIDERED THAT THE "PROTECTION OF U.S. CITIZEN INTERESTS" PORTION OF THE EUOPARA SHOULD NOW REFLECT "FREER MOVEMENT" MATTERS GENERALLY AND DIVIDED FAMILY CASES SPECIFICALLY.

4. WE HAVE BEEN ENCOURAGED BY RECENT HUNGARIAN ATTEMPTS TO BE COOPERATIVE WITH US IN A VARIETY OF WAYS. THE PAYMENT OF THE THIRD TRANCHE DUE ON THE CLAIMS AGREEMENT, THE RESOLUTION OF THE MESTERHAZY EMIGRATION CASE, AND THE AGREEMENT WITH THE FOREIGN BONDHOLDER'S PROTECTIVE COUNCIL  
SECRET

PAGE 03 STATE 160744

ARE ALL HELPFUL MEASURES. THE HUNGARIANS SEEM PARTICULARLY ANXIOUS TO GET THEIR ESCUTCHEON CLEAN FOR THE JOHNSON ACT, A WISH THAT WE WELCOME. FURTHER, WHILE THE HUNGARIAN AIRLINE IS UNABLE TO SERVE THE U.S. AT THIS TIME, THE HUNGARIANS PERMITTED PAN AM TO BEGIN SERVICE TO BUDAPEST ON MAY 22 UNDER FAVORABLE CONDITIONS. WE HAVE, IN TURN, PROPOSED THE MUTUAL ABOLITION OF CLOSED ZONES, AND THE HUNGARIANS HAVE FINALLY RECEIVED ZONING APPROVAL FOR THEIR NEW EMBASSY HERE. THESE STEPS, TAKEN AS NEW AMBASSADORS IN BUDAPEST AND WASHINGTON ASSUME THEIR DUTIES, MAY LEAD IN TURN TO FURTHER PROGRESS IN OTHER BILATERAL AREAS.

RE EMBASSY'S RECOMMENDATION ON THE RETURN OF THE CROWN,  
WE ARE NOT YET READY TO ACT UNILATERALLY IN THIS MATTER.  
WE CONTINUE TO BELIEVE THAT THE CROWN SHOULD BE GIVEN  
BACK AT AN "APPROPRIATE TIME" CONSISTENT WITH FAVORABLE  
RESULTS IN OUR RELATIONS. IN THE MEANTIME, WE CAN ASSUME  
FIRST PRIORITY IF GOH IS STILL MFN.

5. OUR PROGRESS IN BILATERAL RELATIONSHIPS HAS BEEN DE-LIBERATE AND STEADY; REFLECTING BOTH OUR ACTUAL INTERESTS AND HUNGARY'S INCLINATION AS WELL IN ITS PRO-SOVIET POLICY ORIENTATION. IN THIS REGARD, WE SHOULD BEAR IN MIND THE KADAR SUCCESSION QUESTION, THE EFFECTS OF INFLATION, COSTLY SUBSIDIES AND OIL PRICE INCREASES ON THE PACE OF NEM, AND THE EMERGENCE OF A NEWER GENERATION THAT DOES NOT RECALL 1956 AT FIRST HAND. THESE DEVELOPMENTS POINT IN THE DIRECTION OF CONTINUED BUT MEASURED DEVELOPMENT IN OUR BILATERAL RELATIONS FOR THE COMING YEAR.

6. IN DISCUSSING THESE POLICY OBJECTIVES AND OUR APPROACH TOWARDS HUNGARY IN SPECIFIC AREAS, THE GROUP RAISED SEVERAL QUESTIONS (SEE BELOW) WHICH MIGHT USEFULLY SERVE AS A GUIDE IN HONING FURTHER OUR THOUGHTS AND POLICIES ON HOW TO REACH STATED OBJECTIVES.

A. WHAT IS THE EFFECT OF THE NEM ON THE APPROACH TO PLANNING IN OTHER EASTERN EUROPEAN STATES? WE NOTE, FOR EXAMPLE, THAT THE ROMANIAN FOREIGN POLICY COURSE HAS NOT  
SECRET

PAGE 04 STATE 160744

FOUND MUCH RESONANCE ELSEWHERE. IS THE SAME TRUE OF THE HUNGARIAN ECONOMIC REFORMS? WHAT POLITICAL SIGNIFICANCE FOR HUNGARY ITSELF WOULD WE ATTRIBUTE TO THE NEM?

B. WHAT ARE THE EMBASSY'S CURRENT VIEWS ON THE DISTRIBUTION OF INFORMATIONAL MATERIALS? HAND DELIVERY OF ECONOMIC IMPACT, DIALOGUE, AND PROBLEMS OF COMMUNISM IS FAIRLY EXTENSIVE NOW, AND PICK-UP AT THE EMBASSY OF HORIZONS, USA IS HIGH. ARE WE NOW AT THE OUTER LIMIT OF DISTRIBUTION, OR DO WE WANT TO PUSH FOR MORE? SHOULD THIS MATTER BE PART OF AN EXCHANGES AGREEMENT, OR COULD IT BE SEPARATELY HANDLED? COULD A GENERAL MAILING BE ATTEMPTED, PERHAPS OF ECONOMIC INPUT?

C. THE HUNGARIANS' WISH FOR GREATER ECONOMIC SELF-RELIANCE IS MANIFEST, BUT NOT, HE BELIEVE, VERY REALISTIC, GIVEN THEIR LACK OF NATURAL RESOURCES AND THEIR ESTABLISHED TRADING PATTERNS. THESE FACTS SET SOME LIMIT-

ATIONS ON BOTH HUNGARY'S PROSPECTS FOR INDEPENDENT ECONOMIC MANEUVER, AND CORRESPONDINGLY THEIR ABILITY TO INCREASE THEIR COMMERCIAL RELATIONS WITH US, EVEN WITH MFN. THERE

IS, OF COURSE, NO DISAGREEMENT WITH THE IDEA THAT WE SHOULD SEEK AS MUCH AS POSSIBLE OF THE \$2-3 BILLION THAT HUNGARY PLANS TO ALLOCATE ANNUALLY TO PURCHASES FROM THE WEST. THE EMBASSY'S VIEWS ON HOW MUCH OF THIS MONEY IS AT PRESENT DISCRETIONARY WOULD BE APPRECIATED. (WE NOTE THAT THE SUM INVOLVED SEEMS TO BE A CONSIDERABLE CONTRACTION FROM THE AMOUNTS PREVIOUSLY ALLOCATED BY THE GOH FOR PURCHASES FROM ALL "NON-SOCIALIST" COUNTRIES.)

7. BILATERAL ISSUES

A. IMPROVEMENT IN RELATIONS - CLEARLY THE TRADE ACT IN ITS PRESENT FORM IS NOT ACCEPTABLE TO THE GOH AS A BASIS FOR NEGOTIATIONS ON MFN. THEIR PRIMARY INTERESTS, MFN AND THE RETURN OF THE CROWN, ARE THUS NOT ON THE IMMEDIATE HORIZON. THERE ARE A NUMBER OF MINOR IRRITANTS OF PRIOR DAYS WHICH CAN BE CLEANED UP, THOUGH, TO SET THE BASIS FOR A RELATIONSHIP THAT COULD BE CONSIDERED

SECRET

PAGE 05 STATE 160744

AS "MORE NORMAL." IT SHOULD BE APPARENT THAT IT IS HUNGARY'S COMMUNIST SYSTEM AND, IN PARTICULAR, BUDAPEST'S DEFERENCE TO SOVIET FOREIGN POLICY DICTATES THAT STAND IN THE WAY OF A MAJOR IMPROVEMENT IN RELATIONS. IN THAT REGARD, WE TAKE INTO ACCOUNT THE RATIONAL ACCOMPLISHMENTS OF THE NEM AS A POSITIVE FACTOR WHICH OFFERS SOME BENEFITS TO THE HUNGARIAN PEOPLE AND HAS AN INFLUENCE ON HOW WE LOOK AT AND DEAL WITH THE GOH.

B. PRESS COVERAGE - WE SHOULD CONTINUE TO PROTEST SPECIFIC OBJECTIONABLE PRESS ARTICLES AND MEDIA TREATMENT. IN ADDITION, THE GOH MUST BE MADE AWARE THAT WHAT THEY SAY ABOUT US IN THEIR PRESS IS A LIMITING FACTOR IN OUR RELATIONS. THEY SHOULD NOT EXPECT US TO SIMPLY IGNORE ATTACKS ON US OR OUR LEADERSHIP IN THEIR MEDIA. WE ARE SOMEWHAT SKEPTICAL ABOUT THE PROSPECT OF GETTING MORE EVEN-HANDED INTERPRETATIONS OF AMERICAN LIFE FROM HUNGARIAN WRITERS, JOURNALISTS, AND TV SPECIALISTS, BUT WE ARE AWARE OF INDIVIDUAL CASES WHERE MORE BALANCED REPORTING SEEMS TO HAVE PREVAILED. THE EMBASSY SHOULD CONTINUE TO MONITOR SUCH VISITS AND THEIR AFTERMATH.

C. DIVIDED FAMILIES - WE ARE AWARE THAT THE NUMBER OF FAMILY REUNIFICATION CASES IS NOT LARGE, AND THAT THE HUNGARIAN RECORD IN UNITING IMMEDIATE FAMILIES HAS BEEN FAIRLY GOOD. THE RESOLUTION OF THE MESTERHAZY CASE WILL REMOVE AN IRRITANT IN OUR RELATIONS. HOWEVER, WE ARE CONCERNED THAT THE SMALL NUMBER OF SUCH CASES MAY REFLECT NOT THE EASE OF FAMILY REUNIFICATION, BUT THE EXACT OPPOSITE. HOW MANY HUNGARIANS DO NOT EVEN BOTHER TO APPLY FOR EMIGRATION PASSPORTS BECAUSE OF THE "UNDER 55" RULE? WE

NOTE THE EMBASSY'S JUDGEMENT THAT HANDING A REPRESENTATION LIST AS SUCH TO THE HUNGARIANS WOULD BE COUNTER-PRODUCTIVE. WE WILL GO ALONG WITH THIS FOR THE TIME BEING. MEANWHILE, THE EMBASSY SHOULD FIRMLY RAISE EACH CASE ON AN INDIVIDUAL, HUMANITARIAN BASIS AT LEAST ONCE EACH SIX MONTHS, AND SHOULD REFLECT THESE REPRESENTATIONS ON THE NEXT (AND FOLLOWING) REPRESENTATION LISTS POUCED TO THE DEPARTMENT.

D. VISAS - THE EMBASSY SHOULD POINT OUT TO THE GOH  
SECRET

PAGE 06 STATE 160744

THE PUBLIC RELATIONS ASPECTS OF THE CONTINUED AND UNEX-PLAINED HUNGARIAN DENIALS OF SOME VISAS TO AMERICAN CITIZENS FOR VISITS TO HUNGARY.

E. BUSINESS FACILITATION - WE ARE GRATIFIED THAT THE GOH HAS TAKEN SOME STEPS, ON PAPER AT LEAST, ON THE BUSINESS FACILITATION ISSUE. MORE NEEDS TO BE DONE IN IMPLEMENTING HUNGARIAN LEGISLATION IN THIS REGARD. THE EMBASSY SHOULD VIGOROUSLY SUPPORT THE EFFORTS OF AMERICAN ENTERPRISES TO OPERATE EFFECTIVELY IN HUNGARY, BEARING IN MIND SUCH QUESTIONS AS VISAS, PERMITS, LOCAL STAFF AND OFFICE FACILITIES.

8. PROPOSED STEPS FOR 1975

A. TRAVEL RESTRICTIONS - WE HAVE PROPOSED THE MUTUAL ELIMINATION OF CLOSED AREAS. AT AN APPROPRIATE TIME IN THE FUTURE, THE QUESTION OF THE ELIMINATION OF DESIGNATED EXIT/ENTRY POINTS CAN BE CONSIDERED.

B. EXCHANGE AGREEMENT - WE AGREE THAT AD HOC EXCHANGES AND PROGRAMS SUCH AS STAGS AND IVS SHOULD PROCEED AND BE EXPANDED. WE ALSO NOTE THE VERY EFFECTIVE WORK BEING DONE BY THE EMBASSY IN THESE AND RELATED FIELDS. THE CAUSE OF THE "EROSION" OF INFORMATION RESTRICTIONS IS NOT CLEAR. WE SUSPECT THAT EMBASSY BUDAPEST'S VERY PROFESS-

IONAL EXPLOITATION OF OPPORTUNITIES IS THE KEY HERE, RATHER THAN DELIBERATE RELAXATION BY THE GOH. IN ANY CASE, WE WOULD LIKE TO SEE MORE RECIPROCITY IN THE ELIMINATION OF THE INFORMATION RESTRICTIONS. WE SHOULD ALSO CONSIDER MOVING TOWARDS NEGOTIATIONS OF A CULTURAL AND SCIENTIFIC EXCHANGES AGREEMENT AS A NEXT SIGNIFICANT STEP IN THE DEVELOPMENT OF OUR BILATERAL RELATIONS.

C. HIGH-LEVEL VISITS - WE AGREE THAT OFFICIAL VISITS AT APPROPRIATE LEVELS ON BOTH SIDES SHOULD BE ENCOURAGED. ASSISTANT SECRETARY HARTMAN HAS EXPRESSED A WILLINGNESS TO GO TO BUDAPEST AT AN APPROPRIATE TIME AND WE COULD EXPLORE THE POSSIBILITY OF FOREIGN MINISTER PUJA VISITING

WASHINGTON IN CONNECTION WITH AN UNGA SESSION, SHOULD THE  
SECRET

PAGE 07 STATE 160744

EMBASSY SO RECOMMEND. OTHER HIGH-LEVEL VISITS TO AND FROM HUNGARY MAY BE CONSIDERED DESIRABLE AND USEFUL ESPECIALLY WHEN LINKED TO PROGRESS IN OUR GENERAL BILATERAL RELATIONS. THE RECENT VISIT OF UNDER SECRETARY OF AGRICULTURE CAMP-BELL, FOR EXAMPLE, DEMONSTRATED OUR CONTINUED INTEREST IN EXPANDING COMMERCIAL AND AGRICULTURAL RELATIONS WITH HUNGARY. WE LOOK FORWARD TO THE VISIT OF DEPUTY MINISTER OF AGRICULTURE VANCSA IN THE FALL.

D. BLOCKED ACCOUNTS - WE REMAIN CONCERNED ABOUT HUNGARIAN CANCELLATION OF BLOCKED ACCOUNTS, CITING AS JUSTIFICATION THEIR VIEW THAT THESE ACCOUNTS WERE "INCLUDED" IN THE CLAIMS AGREEMENT. WE ASK THE CURRENT JUDGEMENT OF THE EMBASSY CONCERNING THE DESIRABILITY OF PRESSING THIS MATTER, SINCE THE GOH HAS BEEN FORTHCOMING IN OTHER BILATERAL AREAS OF ECONOMIC INTEREST.

E. PROPERTY - WE OWN TOO MUCH USELESS AND UNPRODUCTIVE PROPERTY IN BUDAPEST. AS A PRIORITY MATTER THE EMBASSY SHOULD FORMULATE A SPECIFIC PLAN FOR DISPOSING OF OR EXCHANGING THIS PROPERTY IN A MANNER WHICH WILL MEET OUR LONGER-TERM REQUIREMENTS.

#### 9. RESOURCES

WE HAVE NOTED EMBASSY'S COMMENTS ON STAFFING AND BUDGETARY MATTERS AND AGREE THAT ANY FURTHER CUTS IN PERSONNEL WOULD IMPAIR THE POST'S ABILITY TO CARRY OUT ITS ASSIGNED MISSION. KISSINGER

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